



U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

AUDIT REPORT

Issue Date: November 17, 2006

Number: 7-04

To: Department of Treasury, Financial Management Service

From: Debra Ritt
Assistant Inspector General for Auditing

Subject: GFRS for Fiscal Year 2005

Pursuant to OMB Circular A-136, *Financial Reporting Requirements* (Circular A-136) and *Treasury Financial Manual Part 2, Chapter 4700* (TFM 2-4700), attached is the *Independent Auditor's Report on Special-Purpose Financial Statements*, issued by KPMG LLP, on the Small Business Administration's (SBA) reclassified balance sheet as of September 30, 2006, and the related reclassified statements of net cost and changes in net position and Federal trading partner note for the year then ended (hereinafter referred to as the special-purpose financial statements).

The auditor found that the statements, including the Federal trading partner note, present fairly in all material respects, the financial position of SBA as of September 30, 2006, and the results of operations, and changes in net position for the period then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of TFM 2-4700. As requested, the following documents are attached:

- (1) Reclassified financial statements;
- (2) GF004 Trading Partner Summary Report;
- (3) GF003 Audit Trail Report (Reclassification Journal Voucher Report);
- (4) GF006 GFRS FR Notes Detail Report;
- (5) GF007 Other Data Detail Report; and
- (6) Management Representation Letter on Closing Package, including Summary of Unadjusted Misstatements.

We reviewed KPMG's report and related documentation and made necessary inquiries of their representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the SBA's reclassified financial statements or on conclusions about internal control and SBA's compliance with laws and regulations. However, our review

disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

We appreciate the cooperation and assistance of SBA and KPMG representatives. Should you or your staff have any questions, please contact me at (202) 205-7390 or Jeffrey R. Brindle, Director, Information Technology and Financial Management Group at (202) 205-[Exemption 2].

Attachments

Distribution:

Department of Treasury, Financial Management Services: financial.reports@fms.treas.gov

Government Accountability Office: USCFS@gao.gov

OMB, Office of Federal Financial Management: Statements@omb.eop.gov



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Independent Auditors' Report

Administrator, Office of Inspector General,
U.S. Small Business Administration:

We have audited the accompanying Closing Package Financial Statement Reports – Balance Sheet of the U.S. Small Business Administration (SBA) as of September 30, 2006; the related Closing Package Financial Statement Reports – Statement of Net Cost and Statement of Changes in Net Position and the accompanying Financial Report (FR) Notes Detail Report for the year then ended; the accompanying Additional Note No. 27; the accompanying Trading Partner Summary Note Report – Balance Sheet as of September 30, 2006; and the related Trading Partner Summary Note Report – Statement of Net Cost and Statement of Changes in Net Position for the year ended September 30, 2006 (hereinafter collectively referred to as the special-purpose financial statements). The special-purpose financial statements as of September 30, 2005, were audited by other auditors whose report, dated November 18, 2005, was unqualified. As described in note 4B, Loan Guarantees, the amounts related to the *PY Face Value of Loans Outstanding* and the *PY Amount Guaranteed by the Government*, were restated as discussed below. These special-purpose financial statements are the responsibility of SBA's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements have been prepared for the purpose of complying with the requirements of Chapter 4700 of the U.S. Department of the Treasury's *Treasury Financial Manual* (TFM), as described in Additional Note No. 27, solely for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the *Financial Report of the U.S. Government*, and are not intended to be a complete presentation of SBA's consolidated financial statements.



In accordance with *TFM Chapter 4700*, SBA prepared FR Notes Detail Report Nos. 1 through 26, except for FR Notes Detail Report Nos. 10A, 16, 21, 23, and 24, which were not applicable to SBA. SBA included Additional Note No. 27, to disclose other data not contained in the special-purpose financial statements, but which is necessary to make the special-purpose financial statements more informative.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of SBA as of September 30, 2006, and its net costs and changes in net position for the year then ended in conformity with U.S. generally accepted accounting principles and the presentation pursuant to the requirements of *TFM Chapter 4700*, as described in Additional Note No. 27.

The accompanying Trading Partner Summary Note Report – Balance Sheet as of September 30, 2005 and the related Trading Partner Summary Note Report – Statement of Net Cost and Statement of Changes in Net Position for the year then ended, were not audited by us or the other auditors and, accordingly, we do not express an opinion on them.

SBA also prepared Other Data Detail Report Nos. 1 through 16, except for Other Data Detail Report Nos. 4 through 9 and 12 through 15, which were not applicable to SBA. The information included in the Other Data Detail Report Nos. 10, 11, and 16 is presented for the purpose of additional analysis and is not a required part of the special-purpose financial statements, but is supplementary information required by U.S. generally accepted accounting principles and the *TFM Chapter 4700*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this supplementary information, and accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The information included in the Other Data Detail Report Nos. 1, 2, and 3 is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements. This information has been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

The information in the sections entitled “Threshold” in FR Notes Detail Data Report Nos. 2, 4A, 4B, 9, 11, and 19; the information entitled “Threshold” in Other Detail Data Report No. 10; the information in the Reclassification Journal Voucher Report by Line Item – Balance Sheet; and the information in the Reclassification Journal Voucher Report by Line Item – Statement of Net Cost and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the special-purpose financial statements. This information has not been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and, accordingly, we express no opinion on it.

The *TFM Chapter 4700* requires agencies to use the Government-wide Financial Reporting System to input certain data as described in Additional Note No. 27. Except as discussed in this report, we express no opinion on information maintained in that system.

In accordance with *Government Auditing Standards* and OMB Bulletin No. 06-03, we have also issued a combined auditors’ report dated November 14, 2006 which presents our unqualified opinion on SBA’s consolidated financial statements; our consideration of SBA’s internal controls over financial reporting, Required Supplementary Stewardship Information, and performance measures; and the results of our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are required to be reported under *Government Auditing Standards*. That report is an integral part of the audit of the consolidated balance sheet of SBA as of September 30, 2006, and the related



consolidated statements of net cost, changes in net position, and financing, and the combined statement of budgetary resources (hereinafter collectively referred to as consolidated financial statements) for the year then ended, performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 06-03, and should be read in conjunction with this report in considering the results of our audit of the special-purpose financial statements. The consolidated financial statements as of September 30, 2005 were audited by other auditors whose report, dual-dated November 15, 2005 and November 14, 2006, on those consolidated financial statements was unqualified and included an explanatory paragraph that described a restatement of fiscal year 2005 amounts as discussed in notes 6C and 18 to the 2006 consolidated financial statements. Our audit of the consolidated financial statements of SBA as of and for the year ended September 30, 2006, disclosed the following reportable conditions and instances of noncompliance and other matters:

Reportable Conditions:

- Improvement needed surrounding controls over the financial reporting process;
- Improvement needed in management's information technology security controls; and
- Improvement needed in budgetary controls surrounding obligations.

We consider the first reportable condition, above, to be a material weakness.

Noncompliance:

- SBA is not in full compliance with the *Federal Information Security Management Act*; and
- SBA's financial management systems are not in substantial compliance with the *Federal Financial Management Improvement Act of 1996*.

Management is responsible for establishing and maintaining effective internal control. In planning and performing our audit of the fiscal year 2006 special-purpose financial statements, we also considered SBA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the special-purpose financial statements and its compliance with *TFM Chapter 4700* and not to provide an opinion on SBA's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of internal control over financial reporting for the fiscal year 2006 special-purpose financial statements would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the special-purpose financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our fiscal year 2006 audit, we noted no matters involving the internal control over financial reporting and its operation for the special-purpose financial statements that we consider to be material weaknesses.

Management is responsible for complying with laws, regulations (including *TFM Chapter 4700*), contracts and grant agreements applicable to SBA. As part of obtaining reasonable assurance about whether SBA's fiscal year 2006 special-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions or on compliance



with *TFM Chapter 4700* requirements was not an objective of our fiscal year 2006 audit of the special-purpose financial statements and, accordingly, we do not express such an opinion.

The results of our tests of compliance with *TFM Chapter 4700* disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 06-03.

This report is intended solely for the information and use of SBA's management, the SBA Office of Inspector General, the U.S. Department of Treasury, OMB, and GAO, in connection with the preparation and audit of the *Financial Report of the U.S. Government*, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 17, 2006